



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

FmHA AN No. 441 (1910)

February 1, 1982

■ SUBJECT: Credit Reports, Individual

TO: State Directors, District Directors, County Supervisors and
Director, Finance Office, St. Louis, Missouri, FmHA

This AN is published as a reminder for using proper procedure in ordering credit reports on FmHA loan applicants and borrowers, field office verification of billing data for reports ordered and received, and proper collection of credit report fees from the subject of the report.

During FY 81, the Finance Office paid \$2,532,545 to credit report contractors of which only \$747,551 was collected from FmHA borrowers. That is, the Agency's share was \$1,784,994 or 70.1 percent of the total cost. The Agency's share is excessive and must be reduced.

The excessive FmHA share is due partly to the fact that, as authorized by FmHA Instruction 1910-B, the loan applicant who is not approved for a loan is not required to pay for the credit report, and a flat fee of only \$12 is charged to the loan recipient for each credit report ordered and received by the FmHA. This fee is approximately \$4 less than the actual cost of the report which is paid by the Finance Office to the contracting credit bureau. The procedure is being changed to increase the fee charged the applicant and reduce the unnecessary expense to the Government. However, a good part of the expense borne by the Agency is due to errors and omissions on the part of field personnel in the handling of the credit report service. Therefore, immediate action must be taken to adhere closer to current regulations.

The following deficiencies in handling credit reports were found during a recent audit conducted by the Office of the Inspector General (OIG), during assessment reviews conducted by the National Office in several states, and during internal audits conducted by the Finance Office. Each deficiency shown is followed by the proper procedure prescribed in FmHA Instruction 1910-B, in capitals, for the convenience of the reader:

(a) Credit reports were not always ordered from the credit bureau serving the place of residence of the loan applicant. This doubled the cost of the reports as the wrong bureaus had to purchase reports from the repository of the bureaus serving the area of residence of the applicants.

"...CREDIT REPORTS WILL BE ORDERED FROM THE CONTRACT SOURCE SERVING THE AREA IN WHICH THE APPLICANT RESIDES..." (§1910.58).

EXPIRATION DATE: December 31, 1982

FILING INSTRUCTIONS: Preceding FmHA
Instruction 1910-B



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(b) Some credit reports were ordered unnecessarily. For example, reports were ordered when applicant and spouse were both unemployed, or "joint" reports were ordered when one spouse's occupation was listed as "housewife," "unemployed," or "never employed."

"WHENEVER POSSIBLE, AN 'INDIVIDUAL' CREDIT REPORT WILL BE ORDERED AS OPPOSED TO THE MORE COSTLY 'JOINT' REPORT." (§1910.53), "...CREDIT REPORTS WILL BE ORDERED...WHEN AVAILABLE INFORMATION INDICATES THAT THE APPLICANT WILL LIKELY BE ELIGIBLE FOR A LOAN..." (§1910.58), and "...A 'JOINT' REPORT WILL BE ORDERED IF THE INCOME OF BOTH SPOUSES IS NEEDED TO MAKE A SOUND LOAN." (§1910.59 (b)).

(c) Antecedent reports were ordered but not needed when applicants had resided 2 years or longer at their present address. Also, order tickets to the credit bureau contained incomplete information such as not including how long the applicant had resided at the current address and not providing the previous address if the applicant resided at the current address for less than 2 years.

"AN ANTECEDENT REPORT IS A PREVIOUS RESIDENCE REPORT REQUIRED WHEN THE MINIMUM TWO-YEAR UP-TO-DATE CREDIT COVERAGE IS NOT AVAILABLE IN THE BUREAU'S REPORTING TERRITORY..." (§1910.54 (d)). THE COST OF AN ANTECEDENT REPORT IS THE SAME AS THAT OF A BASIC REPORT; THEREFORE, IN THESE CASES, THE ERROR DOUBLED THE COST TO THE AGENCY. "THE 'FORMER NAMES,' 'ADDRESS' AND 'HOW LONG RESIDENCE' BLOCKS MUST BE COMPLETED. IF AN APPLICANT HAS RESIDED LESS THAN 2 YEARS AT THE PRESENT ADDRESS, THE PREVIOUS ADDRESS BLOCK MUST BE COMPLETED SO THAT THE CONTRACTOR WILL KNOW WHERE TO OBTAIN AN ANTECEDENT REPORT." (§1910.60 (c)).

(d) In the case of assumptions or in cases where two or more credit reports were ordered such as cosigners or two or more partners for a farm loan, the County Supervisor failed to instruct the loan closing official to collect \$12 from the borrower for each credit report ordered and received.

"...IF TWO OR MORE CREDIT REPORTS WERE ORDERED AND RECEIVED, NO FUNDS WILL BE INCLUDED IN THE LOAN FOR CREDIT REPORTS AND THE 'NO' BLOCK WILL BE CHECKED IN SPACE 10 OF FORM FmHA 1940-1, 'REQUEST FOR OBLIGATION OF FUNDS.' IN THIS CASE, THE COUNTY SUPERVISOR WILL ALSO INDICATE IN THE INSTRUCTIONS TO THE CLOSING OFFICIAL THE AMOUNT TO BE COLLECTED FOR CREDIT REPORTS (\$12 PER CREDIT REPORT) FROM THE APPLICANT AT LOAN CLOSING..." (§1910.62 (a)).

(e) FmHA personnel routinely ordered credit reports for all applicants when loan funds were not immediately available and long delays in loan processing were expected. Because of the delay it was necessary to order a second credit report to obtain current information for loan approval.

CREDIT REPORTS SHOULD NOT BE ORDERED UNTIL IT IS KNOWN THAT THE APPLICANT IS STILL INTERESTED IN A LOAN WHEN FUNDS DO BECOME AVAILABLE. WHEN AVAILABLE FUNDS ARE NOT ADEQUATE, APPLICATIONS SHOULD BE HANDLED IN ACCORDANCE WITH FmHA INSTRUCTION 1944-A § 1944.26 (b)(4).

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(f) Some credit reports were ordered for "youth" operating loans and Section 504 repair loans.

REPORTS USUALLY WILL NOT BE ORDERED WHEN: "THE APPLICANT'S NEEDS CAN BE MET WITH A SMALL LOAN..." (§1910.58 (c)).

(g) In some cases, FmHA personnel had allowed individuals and packagers to order credit reports by providing them with copies of the order tickets. As a result, FmHA was charged for the reports ordered by parties outside the Agency.

"...CBR ORDER TICKET FORMS ARE SUPPLIED TO THE COUNTY OFFICE THROUGH THE FINANCE OFFICE...ORDER TICKET FORMS OF FIRMS OTHER THAN CBR MAY BE ORDERED FROM THE NEAREST LOCAL OFFICE OF THE CONTRACTOR...ONLY FmHA EMPLOYEES MAY USE THESE ORDER TICKETS. THEY WILL NOT BE SUPPLIED TO BROKERS, LENDERS, PACKAGERS, ETC." (§1910.52 (g)).

(h) FmHA personnel had not always verified and properly validated the fee charged by the contracting bureaus, especially bills for supplemental and antecedent reports. For example, credit bureaus charged \$5.50 for each spouse in a "joint" report for supplemental credit when public record information was the same for both spouses.

A FEE OF \$3 MAY BE CHARGED FOR A REPORT ON THE SPOUSE WHICH CONTAINS: "TRADE OR PUBLIC RECORD INFORMATION WHICH IS THE SAME AS THE APPLICANT." (Paragraph 1 C 2 d (2) of Exhibit A).

(i) Errors were made in the preparation of the Schedule of Remittances form for submittal to the Finance Office. For example, fee payments received for guaranteed loans and conditional commitments were credited as credit report fees.

"ANY FUNDS COLLECTED FOR THE PAYMENT OF CREDIT REPORTS WILL BE HANDLED IN ACCORDANCE WITH FmHA INSTRUCTION 1951-B. THE LOAN FUND CODE SHOULD APPEAR ON THE 'SCHEDULE OF REMITTANCES'..." (§1910.62 (d)). LIKEWISE, FUNDS FROM OTHER CODES SHOULD NOT BE CREDITED TO CREDIT REPORTS.



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Administrator